

SUN-RYPE 03* ANNUAL REPORT



Highlights

Operating

Sales reached a record level of \$111.2 million

Earnings after tax were a record \$5.1 million

Cash provided by operating activities was \$9.2 million

Contract manufacturing revenue increased 39.8%

New product launches included Fruit & Veggie juices, seasonal Spiced Apple Ciders and Organic fruit snacks

PROFILE

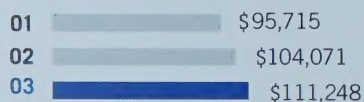
Based in the heart of British Columbia's fruit growing district, Sun-Rype Products Ltd. is a leading Canadian manufacturer and marketer of juice-based beverages and 100% fruit snacks with annual sales of more than \$100 million.

Financial (in thousands of dollars)

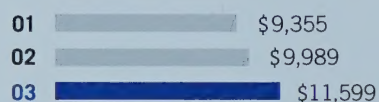
	2003	2002	% increase (decrease)
Net sales	\$ 111,248	\$ 104,071	6.9
EBITDA ¹	11,599	9,989	16.1
Net earnings	5,120	4,873	5.1
Capital expenditures	2,606	10,959	(76.2)

¹ Earnings before interest, income taxes, depreciation and amortization.

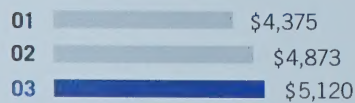
Net Sales



EBITDA



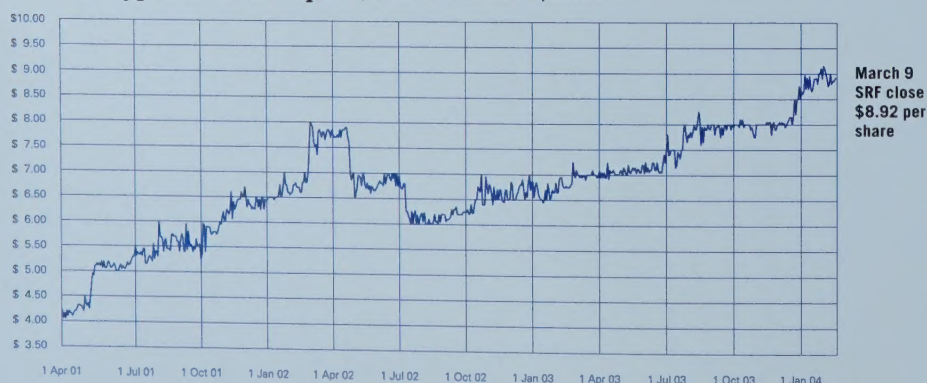
Net Earnings



Capital Expenditures



Sun-Rype Share Price April 1, 2001 to March 9, 2004



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*Momentum

mo·men·tum

noun

Strength or force gained by motion or through the development of events

2003 was an exciting year for Sun-Rype. It was a time of steady growth and progress for our company. We extended our leadership in key markets, completed the modernization of our food manufacturing operations, expanded our investment in product development, and posted record net sales. Such progress is a reflection of the unique spirit that has fuelled our rapid growth from a regional cooperative into a national food and beverage company. Thanks to the energy of our people and their unwavering passion for the Sun-Rype brand, we will continue to build on this momentum in the years ahead.

Letter to Shareholders

The past year was another period of steady growth and progress for Sun-Rype. By year end we had launched new sales and marketing initiatives, maintained the number one position in our major product categories,^{1,2} generated greater efficiencies from our new food and beverage facilities, successfully expanded our contract manufacturing business, and posted our third consecutive year of record sales. Most importantly, we continued to make the required investments – in our brand, in our products and in our people – that will sustain Sun-Rype's leadership in the years ahead.

Record revenues

Sales for 2003 reached a record \$111.2 million, a 6.9% increase over last year. New product launches, core branded beverage and contract manufacturing sales all contributed to the favourable sales growth, with particularly strong performance evident in the newly launched Fruit & Veggie juices, revitalized Fruit to Go that benefited from an extensive marketing campaign, and three new food contract manufacturing agreements.

Gross profit of \$39.3 million was up \$2.8 million over last year but remained relatively stable as a percentage of sales at 35.3% compared to 35.1% in 2002. Improving cost efficiencies on the new fruit snack equipment and lower raw material costs (including savings from a stronger Canadian dollar) were the primary contributors to this improvement, despite some increased costs experienced in 2003 for training and start-up of the new fruit snack equipment, and limited availability and higher cost of process grade apples.

Selling, general and administrative ("SG&A") expenses were \$27.5 million or 24.7% of sales compared to \$26.5 million or 25.5% of sales in 2002. The increase of \$1.0 million in SG&A is primarily attributable to increased consumer marketing expenditures and human resources costs.

Net earnings for the year reached \$5.1 million, a 5.1% increase over 2002. This result was achieved during a year in which Sun-Rype spent significant energy consolidating and modernizing its foundation for growth. We see room for continued productivity gains going forward.

A consistent strategy for growth

As always, our actions were guided by a four-part strategy that builds on our leadership in the growing market for convenient, wholesome, great-tasting food and beverages. Simply stated, our strategy is to:

- Maintain and grow our market-leading brand in western Canada with strong vitality initiatives in core categories
- Extend the Sun-Rype brand into central and eastern Canada through the continued development of an innovative and wholesome snack food portfolio
- Develop new and innovative fruit-based products to continually enhance and revitalize Sun-Rype's own branded product lines
- Enhance revenues and operating efficiencies through the development of our contract manufacturing business

Evidence of our progress has been seen in a number of important programs such as the complete revitalization of Fruit to Go. This program encompassed a series of initiatives that included the installation of state-of-the-art food processing and packaging equipment, improved product formulations, and a national advertising campaign. These efforts have extended Fruit to Go's leadership as the country's number one fruit snack² and advanced our objective of establishing Sun-Rype as a national brand.

Meanwhile, we were equally active in our beverage business where Sun-Rype continued to occupy the number one position in the juice/drinks/nectars ("JDN") segment of the market in western Canada¹ and where the launch of our new Fruit & Veggie juices yielded strong results. Market acceptance was unprecedented as we achieved virtually full retail distribution within two months. To date, more than a quarter of a million western Canadian households have tried Fruit & Veggie juices³ and we expect continued sales momentum in the year ahead.

At the same time, we've continued to promote our contract manufacturing capabilities as a means of generating additional revenue and enhancing capacity utilization. During the past year, we secured production agreements to manufacture (co-pack) fruit-based snack bars for branded customers in the US and Europe and expect to keep growing this business. We also completed a major information systems upgrade that has successfully integrated all of our core processes – from procurement to manufacturing to customer service – while providing the flexibility we need to effectively manage the Company's continuing growth.

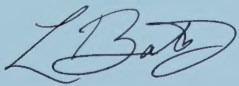
\$21.5 million

Sun-Rype has reinvested over \$21.5 million in our equipment and systems over the past 5 years – a testament to our constant investment in growth and profitability.

Abundant opportunity ahead

As for the future, we have never been more optimistic about our prospects. We enjoy the benefit of a trusted brand, market-leading products, a strong balance sheet, modern food and beverage processing facilities, capable and energetic employees, and a new labour agreement that gives us stability as well as room for continued productivity improvements. For all these reasons, we are confident that Sun-Rype will be able to sustain its momentum in the months and years ahead.

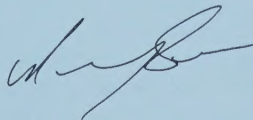
Sincerely,



Lawrence Bates

President & Chief Executive Officer

February 27, 2004



Merv Geen

Chairman

¹ ACN MarketTrack, Total West, Grocery 3 Channels, 52 weeks, w/e Dec. 27, 2003

² ACN MarketTrack, National, Grocery 3 Channels, 52 weeks, w/e Dec. 27, 2003

³ ACN Homescan, Trial and Repeat Study, Nov. 2003

Leadership in Transition



A Fond Farewell from Lawrence Bates

I came to work as a regional salesman for Sun-Rype one spring day in 1968. The years since then, including the past five as the Company's President and CEO, have contained more than their fair share of hard work, good times and special relationships. Along the way, it's been a privilege to play my part in the Company's growth from a small fruit growers' cooperative to a thriving national food and beverage company. I'm also proud that Sun-Rype has been able to achieve success while staying true to its core values. In fact, I believe that our defining characteristics – from the integrity of our relationships to an unwavering focus on quality – are important reasons why the products of a small company from Kelowna have struck such a responsive chord across the country.

The fondest hope of any retiring CEO is to leave a company in better shape than he or she found it. Thanks to the dedication and capabilities of our people, the valued support of our customers and our suppliers, our investors and our board, it's a wish that has truly been realized.

Sincerely,

Lawrence Bates

In September 2003, we announced that Lawrence Bates would be retiring in 2004 following a 36-year career at Sun-Rype, the last five of which he served as the Company's President and CEO. As Chairman of the Company, and on behalf of the board, the executive management team and all the other employees of Sun-Rype, I'd like to thank Lawrence for his years of dedicated service and acknowledge the important contributions he has made in guiding Sun-Rype's profitable growth over the past few years. He leaves us with an enviable legacy – one that includes leading positions in healthy markets, a focused strategy for growth and an innovative product development program that is squarely aimed at the rising nutritional awareness of consumers.

Among his final responsibilities, Lawrence is working with his successor to ensure an orderly transition of leadership. On February 4, we were exceptionally pleased to announce the appointment of Mr. Eric Sorensen, former President of Warner-Lambert Canada and former Vice President of Pfizer Canada Inc., as Sun-Rype's new President and CEO. Eric brings valuable leadership experience in the consumer packaged goods business to Sun-Rype and we feel fortunate to have him at the helm.

Merv Geen

Chairman



A Message from Sun-Rype's New President and CEO

Sun-Rype was a familiar part of my life while growing up in the Okanagan valley. Back then Sun-Rype was already a successful regional brand, one that commanded a market-leading position in our household. During my career I have followed Sun-Rype's development and growth with interest. The Company has been able to successfully compete with some of the largest consumer products companies in North America. This is a testament to the strength of Sun-Rype's brand and the passion and commitment of its people.

Such qualities made leadership of this fine company a very attractive prospect. So did the exciting possibilities that I can see for Sun-Rype's future. Our market is supported by many positive trends, foremost among them is the growing nutritional awareness of consumers. Building on the strength of Sun-Rype's reputation for quality and wholesome goodness, I am confident that our development and growth as a leading national brand has just begun.

Eric Sorensen

Revitalizing a Winner

Developing a national portfolio of 100% fruit-based snack foods has been one of Sun-Rype's most important strategies for growth during the past few years. Fruit to Go led the Company's charge onto the national stage with its introduction in 1997 and last year extended its six-year reign as Canada's best-selling 100% fruit snack.¹

This remarkable track record has required a consistent investment of energy and resources. Following the installation of the new processing and packaging equipment at our Kelowna, BC manufacturing facility, Sun-Rype introduced a totally revitalized Fruit to Go portfolio in April 2003 that featured exciting new flavours and a fresher, better taste. The launch was supported by a full-scale national advertising campaign that included television, magazines and special promotions – all aimed at reinforcing Fruit to Go's position as a healthy snack for active kids.

Post-campaign research has confirmed the incremental effect of these efforts as well as the fundamental strength of the Fruit to Go brand. Since April 2003, national sales of Fruit to Go have grown by more than 17%. This has translated into a three-point gain in Canadian market share to 21%² – a particularly impressive gain for a product that already enjoyed the number one position in a very competitive market. Equally important is the role Fruit to Go has played in expanding the Sun-Rype brand across the country. In central and eastern Canada, sales of Fruit to Go grew by more than 24%³ thanks to strong consumer demand and a growing list of club stores, mass merchandisers and other retailers.



71 million

Fruit to Go is a healthy snack that everyone can feel good about eating. No wonder Sun-Rype sold more than 71 million individual Fruit to Go bars during the past year.

A growing national brand

Sun-Rype's innovative merchandising systems have played a major role in helping customers create "healthy snacking centres" where customers can choose from a wide variety of our products.

Lisa Bonner, Sun-Rype Merchandising Representative, works closely with Safeway Produce Manager Steve James to optimize in-store merchandising efforts.



¹ ACN MarketTrack, National, Grocery 3 Channels, 52 weeks, w/e Dec. 27, 2003

² ACN MarketTrack, National, Grocery 3 Channels, 40 weeks, w/e Dec. 27, 2003

³ ACN MarketTrack, Total East, Grocery 3 Channels, 40 weeks, w/e Dec. 27, 2003

Quenching a Growing Thirst



Two and a half years ago, Sun-Rype introduced the Fruit & Veggie snack bar to Canadian consumers. Fruit & Veggie bars were an instant hit with active, health-conscious families because they delivered two of the five to ten daily recommended servings of fruit and vegetables in one great-tasting, convenient product. In fact, such attributes helped Fruit & Veggie bars earn the Canadian Council of Grocery Distributors coveted Grand Prix Award in 2002.

Last year, Sun-Rype applied the same kind of innovative thinking to the development and introduction of a new line of 100% juices. New Sun-Rype Fruit & Veggie juices are made with our own unique blend of fruit and seven different vegetables. These great-tasting juices provide 100% of the recommended daily intake of vitamin C and are an excellent source of vitamin A. Launched in February 2003, these delicious products met immediate retail trade acceptance and achieved full distribution in western Canada within two months. Today, our three varieties of Fruit & Veggie juices have been enjoyed in nearly a quarter of a million western Canadian households, significantly exceeding national averages for new product introductions in their beverage category.¹

Consumers' growing attention to the nutritional quality of the food they eat should continue to support demand for products such as Fruit & Veggie juices in the future. A strong consumer campaign planned for 2004 – which will feature advertising in prominent health, wellness and lifestyle publications combined with in-store demonstrations – is expected to build product momentum. In addition, Sun-Rype will be participating in an expanding series of health and wellness shows across the country, educating consumers on the healthful benefits of Fruit & Veggie juices, as well as the wider portfolio of Sun-Rype fruit snacks and beverages.

\$2.5 million

Fruit & Veggie juices achieved sales of more than \$2.5 million in its first nine months on the market.

Consumer-focused product development

New product development is a creative and collaborative effort at Sun-Rype, involving the expertise and input of several disciplines in the organization.

Food Technologists Dal Bains, Cherry Nicholson and Amy Barnet work closely with Research and Development Manager Barb Clarke and New Products Manager Gary Turner to create quality products that meet consumers' needs.



¹ ACN Homescan, Trial and Repeat Study, Nov. 2003

Fostering Healthier Choices

North American consumers are increasingly aware of the role food plays in determining overall levels of health and fitness. Evidence of consumer concerns can be seen just about everywhere, from the constant parade of new diet plans, to warnings of a childhood obesity epidemic, to an increasing concern about the safety of food additives such as trans-fatty acids and acrylamides. In the midst of sometimes contradictory information, consumers are confused and uncertain. They are looking for solutions from brands that they know and trust.

Fortunately, Sun-Rype is exactly where more and more of today's consumers are going. We are fundamentally committed to simple, portable, nutritious products that today's active families can trust, from our current lineup of fruit snacks and beverages to the principles that guide our new product development program. Sun-Rype has always been the brand that consumers rely on for unwavering quality and wholesome goodness.

Last year, we launched AppleWise, a new consumer education initiative that's raising awareness of the benefits of apples and apple-based products and showcasing Sun-Rype products that make it easier than ever for active families to incorporate healthy eating habits into their busy lives.

AppleWise features a robust new section in our website complete with scientific research studies that link apples and apple-based products to a wide array of benefits. There's also a section that educates consumers about the antioxidants found in fruit and vegetables and the remarkable benefits of these phytonutrients.

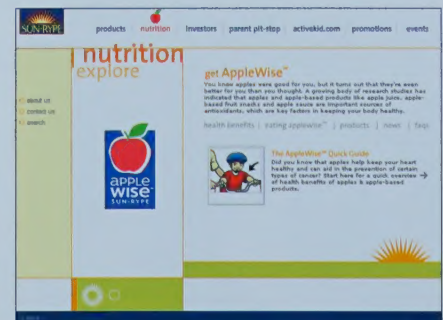


An apple a day...

Sun-Rype's AppleWise Program is a multimedia consumer education initiative communicating the nutritional benefits of its naturally wholesome apple-based snacks and beverages.



Newspaper ads, in-store leaflets, and a dedicated section on Sun-Rype's website are key components of the AppleWise Program.



Sharing Our Expertise

Contract Manufacturing Percentage of net sales

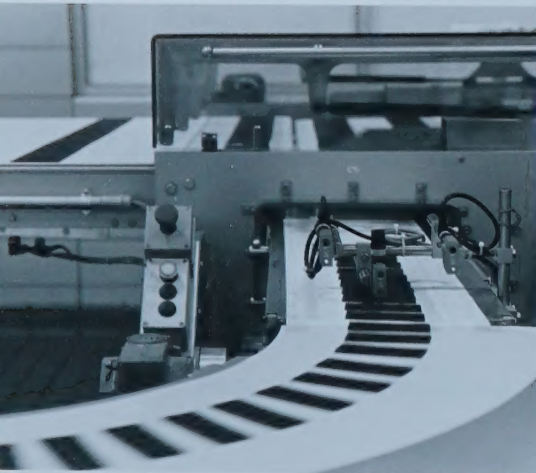


During the past few years, Sun-Rype has successfully completed modernization programs in both its beverage and food processing facilities. These initiatives have given us vital capacity for expansion and led to significant improvements in the formulation of our branded products. Just as important, they have opened the door to a growing range of contract manufacturing opportunities. In today's competitive consumer product markets, more food companies are inclined to concentrate on brand promotion while leaving production in the hands of trusted specialists such as Sun-Rype. Sun-Rype offers a complete contract manufacturing package with state-of-the-art production and packaging facilities, first-class research and development, an unsurpassed reputation for quality and service, and Hazardous Analysis Critical Control Point ("HACCP") certification. HACCP is an internationally recognized set of principles for controlling food safety that has been adopted by the Canadian Food Inspection Agency and will eventually become the standard for all food and beverage manufacturers in Canada.

During the past year, many of the seeds that have been planted by our contract manufacturing sales team have started to bear fruit. Revenues generated by our contract manufacturing operations grew significantly in 2003 while making an increasingly positive contribution to overall manufacturing efficiency and corporate profitability. Sun-Rype secured three new agreements for the manufacture of fruit-based snack bars on behalf of new US and European customers. Such agreements are the culmination of long-term collaborative efforts that rely upon Sun-Rype's proven resources, from concept development to finished products.

40% increase

Sun-Rype's contract manufacturing revenue grew by nearly 40% between 2002 and 2003 and now represents 11.5% of total sales.



What our customers want

Sun-Rype's reputation for unsurpassed quality assurance is just one of the reasons our customers feel good about putting their names on the products we make for them.

Left: A view of our fruit bar packaging line.

Right: Quality Assurance Manager Lynn Tamaki works closely with Tetra Operator Dennis Carson to make sure Sun-Rype quality standards are met every step of the way.

Management's Discussion and Analysis

How to use this Management's Discussion and Analysis ("MD&A")

The following discussion is intended to help readers understand Sun-Rype Products Ltd. ("Sun-Rype" or "Company"), its history, business environment, strategies, performance and risk factors from the viewpoint of management. It should be read in conjunction with the consolidated financial statements and the accompanying notes for the years ended December 31, 2002 and 2003. The following comments may contain management estimates of anticipated future trends, activities or results; these are not a guarantee of future performance, since actual results could change based on other factors and variables beyond management control.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls, and to ensure that information used internally or disclosed externally, including the financial statements and management's discussion and analysis, is complete and reliable.

Overview

Since its incorporation in 1946, Sun-Rype has manufactured apple-based food and beverage products and marketed them through various distribution channels. The Company's pure fruit juices have enjoyed a leading market share position in the juice/drinks/nectars ("JDN") category in western Canada. In the early 1990s, Sun-Rype introduced fruit-based food bars and now produces and markets several 100% fruit snack lines nationally, including Fruit to Go (ranked #1 in its category for sales in Canada).

During the past three years, Sun-Rype has invested to complete a broad-based technical upgrade and production capacity enhancement at the Company's plant located in Kelowna, BC. Over the same period, complementary consumer marketing campaigns have been executed, aligning updated processing technology, revitalized packaging and new, innovative product offerings (such as Fruit & Veggie bars and Fruit & Veggie juices) to meet evolving consumer tastes and demands.

Sun-Rype's consistent net cash inflows have allowed the Company to upgrade its food and beverage production and packaging equipment and build a strong balance sheet. We have relaunched our beverage products with new packaging features, introduced a more cost-efficient food processing technology, and developed contract manufacturing opportunities that will optimize production capacity and increase sales beyond traditional branded channels.

Sun-Rype's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency to shareholders and accountability. The board's audit committee meets with management quarterly to review financial statement results, including the MD&A, and to discuss other financial, operating and internal control matters. The audit committee receives a quarterly report from the independent auditors and meets with them throughout the year.

Corporate Mission and Strategies

Sun-Rype's mission is to be a leading brand of value-added, healthy, fruit-based food and beverage products, with a focus on apples. The Company's strategic plan includes four key elements to build momentum for the future:

- Protect and enhance the core beverage business in western Canada, particularly the flagship branded product, Blue Label Apple Juice
- Increase profitability through contract manufacturing opportunities (utilizing excess manufacturing capacity by co-packing juices and dried fruit snacks for other companies)
- Develop new and innovative fruit-based products to continually enhance and revitalize Sun-Rype's own branded product lines
- Continue to expand sales of our branded fruit snacks

Management's Discussion and Analysis

Business Environment

Grocery Store Distribution

In the past five years the grocery industry has consolidated into a few major grocery chains with well-developed national distribution systems and a larger number of smaller grocery chains with regional markets. The emergence of private label brands, the addition of grocery items in the mass merchandising and drug store channels, and the addition of club stores have created an intensely competitive environment. Manufacturers must maintain a significant market share in their categories to be successful.

Beverage Trends

There are regional, national and international competitors in the distribution channels of the highly competitive JDN market. The growing refrigerated section of grocery stores is dominated by premium "not from concentrate" orange juice products. The shelf stable section is primarily "from concentrate" products in various package formats. Sun-Rype's Blue Label Apple Juice, a "not from concentrate" product, competes in this shelf stable section and is the market leader.

Food Producer Trends

Sun-Rype has developed a unique dried fruit snack manufacturing process. Our Fruit to Go 100% fruit snacks have gained significant attention from other major branded companies who have noticed this product category's dramatic market growth over the past few years.

Consumer Trends and Demand for New Products

There is a greater focus on health and wellness by consumers in the food and beverages they purchase. Consumers demand convenience, variety and food safety. Sun-Rype's long-term future is dependent upon its ability to continue to adapt to changing consumer needs and to successfully compete with other brands.

Risks

Competition

Sun-Rype competes with a number of large food and beverage producers, some of which may have greater financial resources than Sun-Rype. To the extent these competitors are able to produce competitive products and utilize larger financial, distribution and marketing resources, Sun-Rype may be required to make significant expenditures of an operational nature to improve or even maintain its competitive position.

New Products

The Company's long-term future depends upon its ability to continue to develop new products that can successfully compete in the grocery market under the Sun-Rype brand. The success of newly developed products relies on achieving an adequate level of distribution and strong consumer support programs that develop awareness and trial. Industry statistics indicate a high percentage of new products are unsuccessful and are withdrawn from the marketplace within two years of launch. Our new product development process is designed to reduce that risk by employing third-party consumer research and analysis at key junctures in the development process.

Raw Materials

Apples and juice concentrates (primarily apple and orange) are commodities that experience volume and price volatility. In years of a short supply of process grade apples, there may be difficulty obtaining enough supply in BC and Washington state to meet market demand.

Availability of process grade apples is dependent upon harvest conditions in BC and Washington state. The amount of process grade apples acquired from Washington state varies from year to year depending on BC production and the timing of the supply of specific apple varieties. Management evaluates the long-term apple supply on a continual basis and has developed alternate sources of apples, apple juices and concentrates.

Process grade apple prices are related to supply and to world apple juice concentrate prices. Higher raw material prices can be recovered partially through higher product selling prices, within the limits of market and consumer acceptance and competition from other juice products.

Foreign Exchange

Sun-Rype purchases most of its fruit juice and purée concentrates at prices denominated in US dollars. From time to time, equipment and parts are purchased in other foreign currencies. Sun-Rype purchases

Management's Discussion and Analysis

forward contracts of US dollars and other currencies when existing exchange rates are favourable against budgeted exchange rates, or when forecasted future exchange rates are trending unfavourably against budgeted exchange rates.

In 2003, the volume of US dollar purchases, converted to Canadian dollars, was approximately \$18.6 million (2002 - \$12.0 million).

Contract manufacturing sales agreements with US customers are denominated in Canadian dollars to minimize foreign currency risk on sales revenues.

Environment

Sun-Rype maintains an active environmental program that reflects conscientious policies and respect for the environment. Audits are conducted annually (every third year by an external consultant) to ensure that appropriate management policies and practices towards waste management, recycling and reuse of products are maintained. Management is of the opinion that expenditures relating to current environmental requirements will not have a material adverse effect on the financial position or earnings of the Company.

Key Performance Drivers for Business Success

Sales Volume Growth

Sales volume is the primary driver of earnings growth and profitability for the Company. Our sales force relies heavily on customer service and support as a means of retaining core business and growing market share. Management uses independently measured sales dollar and volume growth (within the wholesale grocery sector), as well as internal sales growth analyzed by product line and by customer to determine current results and future growth targets.

Beyond the traditional channels of grocery, mass merchandisers and club stores, management also seeks to maximize sales growth by developing new opportunities in selected distribution channels such as drug stores, convenience stores and food service, as well as by co-packing products for other companies.

Sun-Rype's top seven customers comprise 75% of total sales.

Product Innovation

Sun-Rype's marketing department and research and development group are continually assessing the competitive environment, researching consumers' changing needs and developing unique and innovative products to expand Sun-Rype branded product lines. In addition to new product launches, the goal is to maintain vitality and innovation in existing products and core categories.

Cost Efficiency and Improving Gross Profit Percentage

Fluctuations in gross profit percentage are usually less than 1% of net sales, and are most often driven by changes in the cost of raw materials, primarily process grade apples and fruit juice concentrates.

Capabilities to Achieve Desired Results

Sales Force

Sun-Rype employs its own sales force in western Canada and its own account management team for major national retailers and contract manufacturing customers, but uses third-party brokers for eastern and central Canadian customers. Sales strategies and annual budgets are linked to sales volume and profitability targets.

The sales department is organized by region, function and distribution channel, and utilizes specific tactical programs to achieve desired sales results and to develop strong customer relationships over the long term.

Marketing Support and New Product Innovation

The marketing department is responsible for new product launches, the revitalization of existing products, consumer research, packaging innovation, consumer communications, advertising and other programs that help build consumer loyalty and drive long-term sales growth.

Sun-Rype's beverage products, a staple grocery item in the western Canadian marketplace for more than 50 years, exist within a mature, highly developed and extremely competitive product category. As such, they require ongoing revitalization, innovation and consumer marketing support to generate sales

Management's Discussion and Analysis

growth. Sun-Rype's 100% fruit snack products exist within a less developed but rapidly expanding product category. This category has the potential for strong long-term growth and wider distribution.

Employee Skills and Expertise

Sun-Rype has a solid base of skilled production employees and a sales and marketing team that has won industry awards for customer service and innovative products.

Production Capacity and Efficiency

Capital investment activities from the past three years have provided newly upgraded processing and packaging equipment for both beverage and food. Management continues to plan ahead for the next phase of capacity expansion. Sun-Rype's current labour agreement continues until September 2006.

Cash Flow and Capital Investment

The Company's current favourable cash position (\$8.6 million surplus and nil bank debt) and its ability to consistently generate cash from operations (\$9.2 million in 2003) provide a solid base for future business opportunities. The current surplus cash is invested in a mix of highly liquid and secure short-term investments.

As a manufacturer and marketer of a wide range of beverage and food products, Sun-Rype must be conscious of the capital resources needed to sustain long-term growth.

Currently, a typical operating year will require sustaining capital expenditures of approximately \$2.0 million to \$2.5 million, while years of major capital investment could be considerably higher.

Financial Performance

Accounting Estimates

Significant areas that involve management estimates in preparing financial statements include provisions for uncollectible accounts receivable, the amortization rate of capital assets, provisions for sales returns and allowances, and provisions for obsolete inventory. Management does not believe that any of these estimates are critical to the Company's financial positions or result of operations; however, actual results could differ from these estimates.

Sales and Profitability

Sun-Rype had sales of \$111.2 million (2002 - \$104.1 million) and net earnings of \$5.1 million (2002 - \$4.9 million) in 2003. Gross profit increased by \$2.8 million over last year, and represented 35.3% of net sales in 2003, compared to 35.1% in 2002. In terms of product mix, beverage product sales were 74% of total sales for 2003 (2002 - 73%) while food product sales were 26% of total sales (2002 - 27%).

Branded sales

Branded sales increased by 3.6%. Branded beverage sales were the most significant contributor, with 1-litre branded beverage sales increasing by 10.4% or \$4.7 million (a result of the newly launched Fruit & Veggie juices and seasonal Spiced Apple Ciders, and growth of our core 100% juice offerings). Other branded beverage formats, including individual sizes, glass and cans, remained at similar levels to last year.

Branded food sales declined by 1.9%, due to lower apple sauce sales compared to last year. This was a result of a consolidation of apple sauce size offerings and packaging formats in 2003. Western Canada fruit snack sales were lower by 3.9%, primarily due to a decline in Fruit & Veggie bar sales as a result of a reduction in consumer and trade support programs compared to the previous year, when they were launched. This was offset by fruit snack sales in central and eastern Canada, which grew by 6.1% in response to refreshed packaging and consumer advertising campaign efforts.

Contract manufacturing sales

Contract manufacturing (the production of similar food and beverage products for other companies) increased by 39.8% in 2003, a direct result of management's focus on utilizing excess capacity. During 2003, several new food production contracts were signed with strategic, branded marketers in the US and Europe. Sun-Rype's proportion of contract manufacturing sales has risen from 8.8% of total sales in 2002 to 11.5% of total sales in 2003. With unused production capacity still available, Sun-Rype continues to search for other contract manufacturing opportunities.

Management's Discussion and Analysis

Cost of goods sold and resulting gross profit margin

Sun-Rype's gross profit margin was 35.3% of net sales in 2003, compared to 35.1% in 2002. The Company experienced improved operating efficiencies in the new food production equipment and lower raw material costs (due mainly to purchases in US dollars with a higher valued Canadian dollar than last year), which were partially offset by higher training and implementation costs of the new food production equipment and higher process grade apple prices. Indirect overhead, including production supervision, warehouse management and quality assurance, was 4.2% higher in 2003, but still lower than last year as a percentage of net sales (14.8% compared to 15.2% last year).

Selling, general and administrative expenses

Selling, general and administrative expenses for 2003 were \$27.5 million, \$1.0 million higher than last year. As a percentage of sales, these expenses decreased to 24.7% in 2003 from 25.5% in 2002. Overall, marketing costs increased by \$0.7 million due to increased consumer marketing activity and support for the product launches of Fruit to Go, Fruit & Veggie juices and seasonal Spiced Apple Ciders, while selling costs declined slightly by \$0.2 million (the primary contributor was reduced trade advertising costs). Administrative costs increased \$0.4 million, proportionate to the sales and production growth (5.1% of sales in both 2003 and 2002). Key areas of increased administrative spending over last year included database software development (supporting the new integrated information system) and human resource costs (for hiring, collective agreement administration, new labour standards implementation and a new CEO executive search).

Amortization and interest expense

Amortization of \$3.2 million was \$0.8 million higher than 2002, a result of the new \$9.0 million Fruit to Go processing and packaging equipment coming on-stream in early 2003.

Interest expense, which is at a similar level as last year, is due to interest incurred on the promissory note and any balance outstanding on the Company's short-term bank borrowings. As noted in the balance sheet section, bank debt is nil and the Company currently has an \$8.6 million cash surplus.

Loss on capital dispositions

As a result of the new food equipment installation in 2003, certain unused equipment items were disposed of. The net loss for this equipment was approximately \$223,000 compared to \$7,000 in 2002. Management reviews all of its plant and office equipment on a regular basis, and makes provisions annually to account for obsolete/unused equipment or impairment of equipment values.

Income taxes

Income taxes averaged 38.2% of earnings (2002 - 34.6%). The difference in rates is primarily due to the recognition of prior years' income tax reassessments.

Net earnings and earnings per share

Net earnings were \$5.1 million in 2003 (2002 - \$4.9 million), which is equal to basic earnings per share of \$0.48 (2002 - \$0.46) and diluted earnings per share of \$0.48 (2002 - \$0.45). The dilution impact to earnings per share has diminished over the past two years, and is expected to be nil when remaining stock options expire by the end of February 2005. Management and the board have no plans to issue any further stock options.

Selected Financial Information

Annual Financial Statement Analysis

The following is a summary of financial information for Sun-Rype's last three completed fiscal years. The year 2001 has been restated to reflect a change in accounting policy whereby product launch and marketing costs are expensed as incurred (no longer capitalized) and certain sales allowances and customer discounts are reclassified as a reduction of sales (no longer presented as a selling expense).

Management's Discussion and Analysis

Year Ended December 31 (in millions of dollars except for per share amounts)

	2003	2002 (restated)	2001
Balance Sheet			
Total assets	\$ 56.0	\$ 48.8	\$ 42.4
Total long-term obligations ¹	2.1	1.4	1.0
Income			
Net sales	111.2	104.1	95.7
Earnings before interest, income taxes, depreciation and amortization	11.6	10.0	9.4
Net earnings	5.1	4.9	4.4
Per Share Data			
Earnings before interest, income taxes, depreciation and amortization	1.09	0.94	0.88
Cash dividends declared	0.00	0.00	0.00
Net earnings	0.48	0.46	0.41
Net earnings, fully diluted	0.48	0.45	0.41

¹ Includes current portion of long-term debt, capital leases and other long-term obligations including future income taxes.

In 2002, total assets increased by \$6.4 million due mainly to a net increase in fixed assets of \$8.6 million (the new food production equipment), partially offset by a decrease in inventories of \$2.6 million. In 2003, total assets increased by \$7.2 million due mainly to an increase of \$6.7 million in cash and \$2.7 million in inventories, partially offset by a decrease in fixed assets of \$0.8 million and income taxes receivable of \$1.4 million.

Strong branded sales in the new 1-litre reclosable and 200 mL single-serve juice beverages, as well as growth in beverage contract manufacturing, were the main reasons for an \$8.4 million increase in sales in 2002 compared to 2001. Increases in branded beverages and contract manufacturing were also responsible for a \$7.1 million increase in sales in 2003 compared to 2002.

Earnings before interest, income taxes, depreciation and amortization were \$0.6 million higher in 2002 compared to 2001, due mainly to an increase in sales from 2001 to 2002 of \$8.4 million, partially offset by a \$315,000 lower gain on capital dispositions in 2002 than 2001 and a lower gross profit percentage, 35.1% in 2002 compared to 36.2% in 2001.

Earnings before interest, income taxes, depreciation and amortization were \$1.6 million higher in 2003 compared to 2002, due mainly to an increase in sales of \$7.1 million and a nominal increase in gross profit percentage, partially offset by a \$216,000 higher loss on capital dispositions in 2003 compared to 2002.

Quarterly Income Statement Analysis

Quarterly Information (in millions of dollars except per share amounts)

	2003				2002			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net sales	\$28.7	\$27.7	\$28.5	\$26.3	\$27.0	\$25.4	\$26.0	\$25.7
Net earnings	1.8	1.1	1.2	1.1	1.6	1.1	1.0	1.2
Earnings per share								
Basic	0.18	0.10	0.10	0.10	0.15	0.10	0.10	0.11
Diluted	0.18	0.10	0.10	0.10	0.14	0.10	0.10	0.11

Net sales on a quarterly basis have remained in the range of \$25 million to \$29 million, with sales promotion activity the biggest contributor to sales increases in any particular quarter. The heaviest promotional periods are in the first and third quarters, with February Apple Month and September Back-to-School promotions respectively.

Management's Discussion and Analysis

Fourth Quarter

Sales in the fourth quarter were the highest (nominally higher than the second quarter) in 2003 due to strong 1-litre beverage sales, particularly in the newly launched Fruit & Veggie juices. Gross profit percentage for the fourth quarter was also improved at 36.4% of sales compared to 35.1% last year, due to lower raw material costs (a result of net ingredient price decreases and a favourable Canadian/US dollar exchange rate), as well as improved production efficiencies on the new Fruit to Go equipment.

Net earnings for the fourth quarter of 2003 were \$1.8 million (2002 - \$1.6 million), which reflects higher sales and gross profit percentage in 2003, partially offset by a higher effective income tax rate.

Liquidity and Capital Resources

Sun-Rype has no material long-term debt due over the next five years. The Company has, however, entered into contractual commitments and has operating and capital lease obligations as follows:

Payments Due by Period (in thousands of dollars)

Contractual Obligations	Total	2004	2005-2006	2007-2008	2009+
Capital Leases	12	12	-	-	-
Operating Leases	1,950	467	784	617	82 ¹
Other Obligations ^{2,3}	645	492	-	-	153
Total Obligations	2,607	971	784	617	235

1 Annual cost to maintain operating leases for branch sales offices in Vancouver and Calgary.

2 Post-employment benefits, based on employees' estimated retirement plans.

3 Under terms of a packaging agreement, the Company is committed to purchasing a minimum number of units of packaging material annually until 2009, or it would be liable for an annual penalty of \$775,000 (management estimates this to occur only in the event of a dramatic decline in market demand).

There are no off-balance sheet obligations that management is aware of that are undisclosed in the financial statements.

Cash Flows and Working Capital

Cash from operating activities (before changes in non-cash working capital) has grown from \$6.5 million in 2001 to \$7.9 million in 2002 to \$9.4 million in 2003. Management's focus continues to centre on profitable product lines and projects that meet or exceed minimum rates of return on capital.

Changes in certain non-cash working capital items can significantly increase or decrease cash flows from operating activities. In 2003, they decreased cash inflows by \$0.2 million (2002 - increased cash inflows by \$4.1 million). Inventories can fluctuate from year to year depending on availability of process grade apples, production scheduling and the timing of sales for store promotions. Accounts payable can also vary from year to year based on timing of large purchases and payments, and capital expenditure programs. Income tax payables or receivables can fluctuate from year to year due to statutory instalments that exceed or are less than final taxes assessed.

Working capital (current assets less current liabilities) in 2003 was \$16.7 million (2002 - \$10.5 million). The \$6.2 million increase is attributable to the growth in Sun-Rype's cash surplus over the past year, created by higher levels of cash provided from operations partially offset by a lower, sustaining level of capital expenditures in 2003. Working capital is expected to continue to rise as the cash surplus grows and until significant investments are made in strategic business opportunities or other use is made of the surplus. Management expects that cash flow from operations and working capital will be adequate to fund anticipated capital expenditures and investments in the foreseeable future.

Capital Investment and Financing Requirements

Capital investments of \$2.6 million (2002 - \$11.0 million) were primarily of a sustaining nature so manufacturing management could concentrate on achieving further efficiencies in the new food and beverage equipment installed over the previous two years.

Financing activities during 2003 were limited to managing the existing available stock option pool and the normal course issuer bid program ("NCIB"), which has been in place since 1999. In 2003, the exercise of stock options and issuance of new Common shares provided \$361,000 in cash inflows (2002 - \$43,000) and the Company repurchased and cancelled 36,800 Common shares at a cost of \$251,700 (2002 - 1,000 Common shares were cancelled at a cost of \$6,400). Until such time as the Company approves a major capital

Management's Discussion and Analysis

investment or acquisition that exceeds the current cash surplus position, other financing requirements will be minimal.

Balance Sheet

Sun-Rype's balance sheet remains strong with no bank debt and a growing cash surplus. Accounts receivable and payable levels typically increase or decrease by as much as fifteen percent, based on the timing of purchases, account collections and income tax payments. Management reviews turnover levels regularly and targets to perform in the top quartile for working capital management results.

Inventory levels (both raw materials and finished goods) are gradually trending higher, as new products, new raw material ingredients, expanded geographical territories and new contract manufacturing opportunities all require working capital investment to sustain operations. During 2003, management added higher amounts of apple concentrate and tankered raw juice from other suppliers to our regular inventory as an alternative supply during the process grade apple shortage. Finished goods inventory turnover remained at appropriate levels during the last two quarters of 2003 as management moved to "catch up" production after challenges created by stock shortages earlier in the year (caused by unusually low opening finished goods inventory in January 2003).

Income taxes payable are \$0.6 million, compared to a tax receivable of \$1.4 million last year. The 2002 receivable was related to prior year tax refunds booked in 2002, whereas the 2003 actual taxes payable increased on account of remittance instalments being lower than actual costs. Future income tax liabilities increased from \$1.0 million in 2002 to \$1.5 million in 2003 as a result of the difference between depreciation on fixed assets expensed in the books of the Company and capital cost allowance claimed for income tax purposes.

Outstanding Share Data

As of March 15, 2004, the Company had 10,796,900 Common shares issued and outstanding and 57,500 options outstanding and exercisable, at a weighted average exercise price of \$3.16 per Common share.

In 1994, the Company adopted a shareholder rights plan, which was subsequently amended at the Company's annual general meeting in May 2001 and which will expire in May 2004 unless renewed. Under the terms of the amended rights plan (the "Rights Plan"), the Company has authorized the issue of one right for each Common share issued on or subsequent to the date the Rights Plan was adopted. Generally, if any person or group makes a takeover bid not permitted under the Rights Plan, or acquires 20% or more of the Company's outstanding Common shares without complying with the Rights Plan, the Rights Plan will entitle those holders of rights other than the bidder to purchase, in effect, Common shares of the Company at 50% of the then market price.

Outlook

In February 2004, the Company announced the appointment of a new President and CEO, effective March 1, 2004, to replace retiring President and CEO Lawrence Bates. Eric Sorensen brings expertise in the consumer packaged goods industry from his background and former positions as President of Warner-Lambert Canada, Vice President of Pfizer Canada Inc., and other executive roles at Adams Canada, Kraft Canada and Nabob Coffee Company.

The board and management anticipate that Sun-Rype – with its solid balance sheet and cash flow, newly upgraded processing and packaging equipment, expertise in consumer packaged goods, and its leading position in the growing market for naturally wholesome foods and beverages – will be well positioned to take advantage of business opportunities in the future.

Additional information relating to Sun-Rype's operations can be found in the Company's Annual Information Form, filed with the Ontario Securities Exchange and available for viewing at: www.sedar.com.

March 15, 2004

Auditors' Report

To the Shareholders of Sun-Rype Products Ltd.

We have audited the balance sheets of Sun-Rype Products Ltd. as at December 31, 2003 and 2002 and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
February 6, 2004

Balance Sheets

As at December 31 (in thousands of dollars)

	2003	2002
Assets		
Current assets		
Cash	\$ 8,595	\$ 1,894
Accounts receivable (note 2)	10,259	10,183
Income taxes receivable	-	1,388
Inventories (note 3)	13,271	10,520
Prepaid expenses	416	372
Future income tax benefit (note 11)	288	401
	32,829	24,758
Property, plant and equipment (note 4)	23,120	23,941
Deferred expenses	53	65
	\$ 56,002	\$ 48,764
Liabilities and Shareholders' Equity		
Current liabilities		
Promissory note (note 6)	\$ 675	\$ 675
Accounts payable and accrued liabilities	14,257	13,603
Income taxes payable	647	-
Current portion of long-term obligations (note 7)	504	30
	16,083	14,308
Long-term obligations (note 7)	153	389
Future income taxes (note 11)	1,486	1,016
	17,722	15,713
Shareholders' equity		
Share capital and contributed surplus (note 8)	18,797	18,688
Retained earnings	19,483	14,363
	38,280	33,051
	\$ 56,002	\$ 48,764

Commitments and guarantees (note 13)**APPROVED BY THE BOARD OF DIRECTORS**


D. Selman, Director



J. Alfonso, Director

See accompanying notes to these financial statements.

Sun-Rype Products Ltd.

Statements of Earnings and Retained Earnings

For the years ended December 31 (in thousands of dollars except per share amounts)

	2003	2002
Net sales	\$ 111,248	\$ 104,071
Cost of sales	71,925	67,528
Gross profit	39,323	36,543
Selling, general & administrative expenses	27,501	26,547
Amortization	3,209	2,446
Interest expense (note 9)	99	89
Loss on capital dispositions	223	7
	31,032	29,089
Earnings before income taxes	8,291	7,454
Income taxes (note 11)	3,171	2,581
Net earnings	5,120	4,873
Retained earnings, beginning of year	14,363	9,490
Retained earnings, end of year	\$ 19,483	\$ 14,363
Earnings per share (note 14)		
Basic	\$ 0.48	\$ 0.46
Diluted	0.48	0.45

See accompanying notes to these financial statements.

Statements of Cash Flows

For the years ended December 31 (in thousands of dollars)

	2003	2002
Cash provided by (used in):		
Operating activities		
Net earnings	\$ 5,120	\$ 4,873
Non-cash items:		
Amortization of tangible assets	3,197	2,365
Amortization of deferred expenses	12	81
Loss on capital dispositions	223	7
Future income taxes (note 11)	583	346
Other	267	186
	9,402	7,858
Changes in non-cash working capital items (note 12)	(182)	4,060
	9,220	11,918
Financing activities		
Capital lease payment	(29)	(58)
Shares purchased and cancelled	(252)	(6)
Proceeds from issue of shares	361	43
	80	(21)
Investing activities		
Proceeds on capital dispositions	7	6
Capital expenditures	(2,606)	(10,959)
	(2,599)	(10,953)
Increase in cash position	6,701	944
Cash, beginning of year	1,894	950
Cash, end of year	\$ 8,595	\$ 1,894
Supplemental information on cash flows		
Interest paid	\$ 77	\$ 66
Income taxes paid	1,816	2,660

See accompanying notes to these financial statements.

Notes to the Financial Statements

For the years ended December 31, 2003 and 2002

1. Significant Accounting Policies

(a) Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Inventories

Raw materials and supplies are recorded at the lower of cost, determined on a weighted average basis, and replacement cost.

Finished goods are recorded at the lower of cost and net realizable value. Finished goods include the cost of direct labour, direct materials and variable overheads related to production, applied at a standard rate, which approximates actual costs. Fixed overhead costs related to production are considered a period cost and, as such, are not included in valuing inventory but are expensed in the period they are incurred.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost, net of investment tax credits. The Company uses the straight line method of providing amortization over the estimated lives of the property, plant and equipment as follows:

Buildings	15-40 years
Equipment	
- Processing	5-25 years
- Other	3-12 years

The Company periodically compares the carrying value of property, plant and equipment to the estimated undiscounted future cash flows that may be generated by the related assets and recognizes in net earnings any impairment by revaluing the related assets to their fair value.

(d) Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the time of the transactions. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated at the period end rate of exchange. Exchange gains and losses arising on translation or settlement of foreign currency-denominated monetary items are included in the determination of net income for the current period.

(e) Foreign exchange forward contracts

The Company enters into foreign exchange forward contracts to manage foreign exchange risk associated with anticipated future purchases and contractual commitments denominated in foreign currencies. Gains and losses resulting from changes in the market value of these contracts are deferred and recognized in earnings when the related hedged transaction occurs.

(f) Stock-based compensation plans

The Company has stock-based compensation plans which are described more fully in note 8. Contributions by the Company to the employees' share purchase plan, which is available to all permanent full- and part-time employees, are recorded as a compensation expense. Shares are purchased on an eligible employee's behalf by the Company's plan administrator.

Effective January 1, 2003, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to stock-based compensation and other stock-based payments that require the use of a fair value based method to record stock-based compensation to employees. As no stock options or stock-based payments were issued to employees or others during the years ended December 31, 2003 and 2002, and at present the Company does not have any intention to grant such options, the application of this new accounting standard had no material impact on the results of operations and financial position of the Company or the related financial statement disclosure.

(g) Revenue recognition

Sales are recognized upon the shipment of finished goods to customers, when collectibility of proceeds is reasonably assured. The Company deducts from gross sales all payments to customers related to pricing discounts, returns and allowances, certain sales and marketing discounts, promotion funds and

Notes to the Financial Statements

For the years ended December 31, 2003 and 2002

product listing fees. Cooperative advertising funds paid to customers that could have been purchased from unrelated third parties are not deducted from sales, but are classified as selling, general and administrative expenses.

(h) Marketing and product launch costs

The Company records marketing costs for new product launches as an expense when incurred.

(i) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, temporary differences arising from the tax basis of an asset and a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs.

(j) Use of estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses disclosed during reporting periods. Significant areas that involve estimates include provisions for uncollectible accounts receivable, the amortization rate of capital assets, provisions for sales returns and allowances, and provisions for obsolete inventory. The actual amounts could differ from those estimates.

2. Accounts Receivable (in thousands of dollars)

	2003	2002
Trade	\$ 9,671	\$ 9,413
Other	588	770
Total	\$ 10,259	\$ 10,183

3. Inventories (in thousands of dollars)

	2003	2002
Raw materials and supplies	\$ 7,915	\$ 6,479
Finished goods	5,356	4,041
Total	\$ 13,271	\$ 10,520

4. Property, Plant and Equipment (tabular amounts in thousands of dollars)

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land and improvements	\$ 461	\$ -	\$ 461	\$ 449
Buildings	15,719	10,084	5,635	5,438
Processing equipment	36,242	21,372	14,870	16,856
Other equipment	5,637	3,483	2,154	1,198
Total	\$ 58,059	\$ 34,939	\$ 23,120	\$ 23,941

In 2002, plant and equipment included expenditures on food processing and packaging equipment of \$8.5 million, which commenced amortization in early 2003 when the assets were put in use. In 2003, other equipment included capital assets financed by a capital lease with a net book value of \$54,000 (2002 - \$113,000).

5. Bank Indebtedness

The Company has a \$15.0 million operating line of credit with a Canadian bank, which bears interest at the bank's prime lending rate (December 31, 2003 - 4.5%). This facility is secured by a general assignment of book debts and an assignment of inventories and demand debentures creating a fixed and floating charge over all Company assets.

Notes to the Financial Statements

For the years ended December 31, 2003 and 2002

6. Promissory Note

The promissory note, due on demand in the amount of \$675,000 (2002 - \$675,000), is secured by a letter of credit and bears interest at the bank prime rate plus 1/4%.

7. Long-Term Obligations (tabular amounts in thousands of dollars)

	2003	2002
Capital lease obligations repayable in monthly payments of \$1,830 including interest calculated at an average financing rate of 6.75%, secured by specific equipment	\$ 12	\$ 42
Post-employment benefits (note 10)	645	377
	657	419
Less current portion of:		
Capital lease obligations (net of imputed interest of \$693)	(12)	(30)
Post-employment benefits (note 10)	(492)	-
Total	\$ 153	\$ 389

8. Share Capital and Contributed Surplus

Authorized

100,000,000	Common shares without par value ("Common shares")
200	Preference shares of \$6,750 par value ("Preference shares")

Common shares

The Common shares are fully participating and without par value.

Preference shares

At December 31, 2003, there are 200 Sun-Rype Preference shares authorized with a par value of \$6,750 each, none of which are issued or outstanding.

Issued and fully paid capital (tabular dollar amounts in thousands)

	2003		2002	
	Shares	\$	Shares	\$
Common shares				
Opening balance	10,661,200	\$ 17,318	10,642,200	\$ 17,277
Issued for cash	172,500	361	20,000	43
Repurchased and cancelled	(36,800)	(60)	(1,000)	(2)
Closing balance	10,796,900	17,619	10,661,200	17,318
Contributed Surplus				
Opening balance		1,370		1,374
Excess of cost over book value on repurchased and cancelled shares		(192)		(4)
Closing balance		1,178		1,370
Total		\$ 18,797		\$ 18,688

Notes to the Financial Statements

For the years ended December 31, 2003 and 2002

8. Share Capital and Contributed Surplus (continued)

Shareholder rights plan

In 1994, the Company adopted a shareholder rights plan, which was subsequently amended at the Company's annual general meeting in May 2001 and which will expire in May 2004 unless renewed. Under the terms of the amended rights plan (the "Rights Plan"), the Company has authorized the issue of one right for each Common share issued on or subsequent to the date the Rights Plan was adopted. Generally, if any person or group makes a takeover bid not permitted under the Rights Plan, or acquires 20% or more of the Company's outstanding Common shares without complying with the Rights Plan, the Rights Plan will entitle those holders of rights other than the bidder to purchase, in effect, Common shares of the Company at 50% of the then market price.

Employee share purchase plan

The Company has an employee share purchase plan ("ESPP") enabling all permanent full- and part-time employees to acquire Common shares through payroll deductions with financial assistance provided by the Company. The shares are purchased by the administrator of the ESPP on either the open market, from the Company or from such other sources as designated by the board of directors. The aggregate number of treasury shares that may be purchased by the administrator is limited to 400,000 shares, subject to specified exceptions. Eligible employees may contribute monthly an amount, which shall not exceed 7% of salary, and the Company has agreed to contribute 35% of the amount contributed by each eligible employee. All funds and equity shares held by the administrator pursuant to the ESPP are held for the account of the individual eligible employee.

Normal course issuer bid transactions

During 2003 and 2002, the Company maintained normal course issuer bids ("NCIB"s), allowing shares to be repurchased for cancellation. During the current year 36,800 shares (2002 - 1,000 shares) were repurchased for cancellation at an average price of \$6.84 per share (2002 - \$6.40 per share) for a total consideration of \$252,000 (2002 - \$6,400). The excess purchase cost over book value of approximately \$192,000 (2002 - \$4,000) for the repurchased and cancelled shares was applied to contributed surplus.

Stock option transactions

Stock option plan:

The Company has a stock option plan that provides options to purchase Common shares of the Company for its employees, officers and directors. The options granted pursuant to this plan are exercisable at a price equal to or greater than the fair market value of the Common shares at the time the options are granted. At December 31, 2003, the maximum number of shares reserved and issuable under the stock option plan was 57,500 Common shares.

Stock option activity:

	Issued and Outstanding Options	Weighted Average Price
Outstanding at January 1, 2002	250,000	\$ 2.34
Exercised during 2002	(20,000)	2.13
Outstanding at December 31, 2002	230,000	2.36
Exercised during 2003	(172,500)	2.09
Outstanding at December 31, 2003	57,500	3.16

Notes to the Financial Statements

For the years ended December 31, 2003 and 2002

8. Share Capital and Contributed Surplus (continued)

The following table summarizes the options outstanding and exercisable at December 31, 2003:

Number of Options Outstanding and Exercisable	Average Remaining Life (years)	Weighted Average Exercise Price
27,500	0.5	\$ 2.25
30,000	1.0	4.00
<u>57,500</u>	0.8	3.16

Shares reserved for future issuance

As at December 31, 2003, the Company has 457,500 Common shares reserved for issuance pursuant to the following:

Employee, directors & officers share option plan	57,500	shares
Employee share purchase plan	<u>400,000</u>	
	<u>457,500</u>	shares

Shares under the employee share purchase plan are currently purchased on the open market and the share plan administrator has not used any of the 400,000 shares reserved in Treasury.

9. Interest Expense (in thousands of dollars)

	2003	2002
Short-term interest expense	\$ 97	\$ 85
Long-term interest expense	<u>2</u>	<u>4</u>
Total interest expense	\$ 99	\$ 89

10. Post-Employment Benefits (tabular dollar amounts in thousands)

The Company maintains a defined contribution (money purchase) pension plan for substantially all of its salaried employees. Pension costs charged to earnings for the defined contribution plan were \$261,000 in 2003 (2002 - \$243,000).

Under the terms of certain employment agreements with selected senior officers, the Company provides for compensation to be paid to the individuals at the date they cease their employment. These obligations, including any past service costs resulting from amendment to the compensation arrangements, are accrued on a straight-line basis over the expected average remaining service period of the employee. Details of the total post-employment benefit expense charged to earnings and the accrued benefit obligation are as follows:

	2003	2002
Compensation expense	\$ 268	\$ 187
Accrued benefit obligation at December 31, 2003	<u>645</u>	<u>377</u>

At December 31, 2003, the estimated amount payable, on settlement, is \$971,000 (2002 - \$841,000).

Notes to the Financial Statements

For the years ended December 31, 2003 and 2002

11. Income Taxes (tabular amounts in thousands of dollars)

Differences between the statutory income tax rate applicable to the Company and the Company's effective income tax rate applied to net earnings consist of the following:

	2003		2002	
Income tax provision at the combined basic Canadian federal and provincial rate	\$ 3,122	37.7%	\$ 2,967	39.8%
Adjustment in income tax rate resulting from:				
Manufacturing and processing deduction	(166)	(2.0)	(298)	(4.0)
Non-deductible expenses	60	0.7	95	1.3
Other	155	1.9	(183)	(2.5)
Effective income tax provision	\$ 3,171	38.3%	\$ 2,581	34.6%

The income tax provision consists of the following:

Current tax expense	\$ 2,588	\$ 2,235
Future income tax expense	583	346
Total income tax provision	\$ 3,171	\$ 2,581

Significant components of future income tax assets and liabilities include:

	2003	2002
Accrued liabilities	\$ 367	\$ 559
Losses and other deductions	151	151
Future income tax asset	518	710
Capital assets	(1,697)	(1,302)
Other	(19)	(23)
Future income tax liability	(1,716)	(1,325)
Net future income tax liability	\$ (1,198)	\$ (615)

The net future income tax liability is comprised as follows:

	2003	2002
Future income tax benefit (current)	\$ 288	\$ 401
Future income tax liability	(1,486)	(1,016)
Net future income tax liability	\$ (1,198)	\$ (615)

As at December 31, 2003, the Company has capital loss carry-forwards of approximately \$844,000 available to reduce future capital gains (2002 - \$844,000). The Company has fully recognized the benefit associated with these capital loss carry-forwards in the financial statements for 2003 and 2002.

12. Changes in Non-Cash Working Capital Items (in thousands of dollars)

	2003	2002
Accounts receivable	\$ (76)	\$ 699
Inventories	(2,751)	2,606
Prepaid expenses	(43)	193
Accounts payable and accrued liabilities	653	986
Income taxes	2,035	(424)
Total	\$ (182)	\$ 4,060

Notes to the Financial Statements

For the years ended December 31, 2003 and 2002

13. Commitments and Guarantees

(a) The Company has entered into operating lease and rental commitments for certain processing and office equipment and office space for the next five years as follows:

2004	\$ 466,579
2005	436,411
2006	348,424
2007	323,827
2008	293,489

(b) Under the terms of a processing and filling systems agreement, the Company is committed to purchasing a minimum number of units of beverage packaging material annually until 2009, or it would be liable for an annual penalty of \$775,000. Management estimates that penalties would only be payable in the event of a dramatic decline in market demand.

14. Earnings Per Share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. The weighted average number of shares outstanding in 2003, on a non-diluted basis, was 10,669,361 (2002 - 10,658,006). Diluted earnings per share are calculated using the treasury stock method with the effect that the diluted average number of Common shares outstanding in 2003 was 10,754,915 shares (2002 - 10,755,879 shares).

15. Financial Instruments and Credit Risk

The Company's financial instruments include accounts receivable, a promissory note payable, accounts payable and long-term obligations for which the carrying values approximate fair values. The Company also utilizes foreign exchange forward purchase contracts from time to time to hedge risks associated with anticipated future purchases.

As at December 31, 2003, the Company has no currency exposures related to foreign exchange forward contracts. As at December 31, 2002, the Company's exposure related to Eurodollar and Swiss Franc funds for purchasing new food processing and packaging equipment. The 2002 contracts had an aggregate face value of Canadian \$952,000 and at December 31, 2002, the Company would have realized a gain of \$110,000 on liquidation to settle these foreign exchange forward purchase contracts.

Credit risk is the risk of loss from non-performance of suppliers, customers or financial counter parties to a contract. The Company maintains credit policies that management believes significantly minimize overall credit risk. These policies include a review of a counter party's financial condition, measurement of credit exposure and monitoring of concentration of exposure to any one customer or counter party. The Company's customers consist mainly of grocery stores, mass merchandisers and club stores across Canada. The Company's seven largest customers comprise approximately 75% of sales activity (2002 - 78%). At December 31, 2003, 76% (2002 - 80%) of accounts receivable is attributable to these seven customers.

16. Segmented Information

The Company operates in one industry segment in Canada, the consumer packaged goods industry. Financial statements have therefore not been segmented.

17. Comparative Figures

Certain items have been reclassified on the balance sheet to conform to the classifications used in 2003.

A Commitment to Sound Corporate Governance

At Sun-Rype, we believe that the highest standards of corporate governance are an essential ingredient in the effective management of the Company as well as in our ability to create maximum value for all of our stakeholders. Accordingly, we work hard to ensure that Sun-Rype's current policies are in full compliance with current rules, guidelines and standards, and that our approach to corporate governance reflects best practices as well as future foreseeable standards.

During the past year, Sun-Rype continued to comply with both the letter and the spirit of the Toronto Stock Exchange ("TSX") Guidelines on Corporate Governance including the separation of the CEO and Chairman positions and the maintenance of a majority of independent directors on the board. We also continue to further our commitment to corporate governance through the review of existing processes and, where appropriate, the development of new ones, and to prepare for proposed Ontario Securities Commission ("OSC") Guidelines. Ongoing improvements include:

- The adoption of an enhanced Audit Committee charter reflecting the new accounting guidelines and aimed at strengthening the independence and expertise of the Audit Committee
- A review of the Terms of Reference for all board committees to ensure their charters reflect current and proposed TSX and OSC guidelines
- Regular review of our internal control systems and procedures

For a complete description of the Company's corporate governance practices, please refer to Sun-Rype's 2004 Management Information Circular.

Board of Directors

Jess Alfonso *

Mr. Alfonso is the owner and President of Seamark Development Corp. He is also Vice President and a director of Pacific Opportunity Company Ltd., and holds a Master of Science degree in Industrial Administration.

Robert Dawson *

A non-practicing lawyer, Mr. Dawson is the owner of Dawson Orchards Ltd., and a director of the Okanagan Similkameen Co-operative Growers Association and the Okanagan Plant Improvement Co.

James Eccott * +

Mr. Eccott is a retired businessman having previously been President and CEO and a director of Dia Met Minerals Ltd. He holds a Bachelor of Commerce degree from the University of BC and is on the UBC Board of Governors, as well as a number of corporate boards.

Merv Geen * + Chairman of the Board

Chairman since 1992, and a director of Sun-Rype since 1987, Mr. Geen also serves as a director of Kettle Mountain Ginseng Co. Ltd. and is a former orchardist and director of BC Tree Fruits Ltd. and BC Fruit Packers.

Tom Knowlton +

Mr. Knowlton is Dean of the Faculty of Business at Ryerson University and was formerly President of Kellogg North America. He holds an MBA degree from the University of Windsor and serves on the boards of Hudson's Bay Co. and William Wrigley Jr. Co.

Tim McElvaine

Mr. McElvaine is President of McElvaine Investment Management Ltd. providing investment counsel to The McElvaine Investment Trust and The McElvaine Limited Partnership. He holds both CA and CFA designations.

Donald Selman * +

Mr. Selman is a senior partner of Wolrige Mahon, a CA firm. He specializes in acquisitions, business valuations, litigation support and forensic accounting. He holds several professional designations and is a director of Slocan Forest Products Ltd.

Eric Sorensen President and Chief Executive Officer

President and CEO since March 1, 2004, Mr. Sorensen was formerly President of Warner-Lambert, Vice President of Pfizer Canada Inc., and held other executive roles at Adams Canada, Kraft Canada and the Nabob Coffee Company.

Officers & Senior Management

Eric Sorensen** President and Chief Executive Officer

Robert McGowan Vice President, Finance & Administration and Chief Financial Officer

Brad Buchanan Vice President, Sales & Marketing

Robert Dick Vice President, Manufacturing

Gail Prichard Corporate Secretary

** Lawrence Bates retired February 29, 2004 as President and CEO and a director of the Company.

* Members of the Audit Committee

Members of the Compensation/Nominating/Governance Committee

+ Members of the Executive Committee

Five-Year Historical Review

For the years ended December 31 (dollar amount in thousands except per share amounts)

	2003	2002	2001 ^{1,2}	2000 ^{1,2}	1999 ^{1,2,3}
Operating Results					
Net sales ¹	\$ 111,248	\$ 104,071	\$ 95,715	\$ 90,877	\$ 92,355
Gross profit	39,323	36,543	34,685	32,338	32,955
Gross profit %	35.3%	35.1%	36.2%	35.6%	35.7%
Selling, general and administrative expense ^{1,2}	\$ 27,501	\$ 26,547	\$ 25,638	\$ 22,551	\$ 22,489
Other ⁴	223	7	(308)	(835)	-
EBITDA ⁵	11,599	9,989	9,355	10,622	10,466
Depreciation and amortization	3,209	2,446	2,324	2,521	2,530
EBIT	8,390	7,543	7,031	8,101	7,936
Interest expense	99	89	106	433	610
EBT	8,291	7,454	6,925	7,668	7,326
Income taxes	3,171	2,581	2,550	2,740	2,806
Net earnings	5,120	4,873	4,375	4,928	4,520
Financial Position and Cash Flow					
Working capital	16,746	10,450	13,528	8,106	4,273
Invested capital	38,967	33,768	28,965	25,586	20,576
Total assets	56,002	48,764	42,384	34,397	35,716
Interest-bearing debt	687	717	824	1,712	3,194
Shareholders' equity	38,280	33,051	28,141	23,874	17,382
Cash from operating activities before changes in non-cash working capital items	9,402	7,858	6,487	6,626	7,177
Cash from operating activities	9,220	11,918	4,030	3,650	11,273
Capital expenditures	2,606	10,959	2,913	3,806	1,175
Financial Ratios					
Net earnings as % of net sales	4.6%	4.7%	4.6%	5.4%	4.9%
After-tax return on average equity	14.4%	15.9%	16.8%	23.9%	30.4%
After-tax return on average assets	9.8%	10.7%	11.4%	14.1%	12.8%
Pre-tax (EBIT) return on average invested capital	23.1%	24.0%	25.8%	35.1%	34.1%
Current ratio	2.0	1.7	2.0	1.7	1.2
Debt:equity ratio	0.0	0.0	0.0	0.1	0.2
Per Share Information					
Average shares outstanding (000s)	10,669	10,658	10,583	10,004	9,983
Earnings/share	\$ 0.48	\$ 0.46	\$ 0.41	\$ 0.49	\$ 0.45
Cash flow/share	0.88	0.74	0.61	0.66	0.72
Book value/share	3.59	3.10	2.66	2.39	1.74
Share price - high	8.25	8.00	6.60	4.25	3.75
Share price - low	6.32	5.75	3.85	3.20	1.05
Share price - close	8.01	6.50	6.45	4.15	3.50
Operating Data					
Apple tons (t) processed	38,371t	43,837t	53,583t	40,543t	48,452t
Average apple price (per ton)	\$ 132	\$ 109	\$ 96	\$ 160	\$ 107
JDN market share (12 x 1-litre case equiv) ⁶	22%	24%	23%	21%	23%
Total apple juice & apple drinks market share (\$ volume) ⁶	54%	56%	55%	52%	54%
Total fruit snacks market share (\$ volume) ⁷	30%	31%	29%	27%	25%

1 1999-2001 has been restated to reclassify certain sales discounts, promotions and product listing fees paid to customers, formerly included in selling, general and administrative expenses, as a reduction of sales, in accordance with new Financial Accounting Standards Board (US) guidance.

2 1999-2001 has been restated to reflect a change in accounting policy to expense, when incurred, certain marketing and product launch costs. Previously these costs, consisting principally of package development costs and listing fees for new products and extensions to existing products, were deferred and amortized over the life of the product to a maximum of 36 months. The effect on earnings in each year is to reduce amortization expense and add actual total launch cost expenditures to selling, general and administrative expenses.

3 1999 has been restated to reflect a change in accounting policy for future income taxes and employee future benefits.

4 Other includes: gain on the sale of the US "Fruit to Go" trademark in 2000; sale of land and China equipment in 2001; sale of fixed assets in 2002; loss on capital dispositions in 2003.

5 Earnings before interest, income taxes, depreciation and amortization.

6 ACN MarketTrack, Total West, Grocery 3 Channels, 52 weeks ended December of each year.

7 ACN MarketTrack, National, Grocery 3 Channels, 52 weeks ended December of each year.

Shareholder Information

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P.O. Box 49279
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Legal Counsel

Pushor, Mitchell & Company
Kelowna, BC
Fraser Milner Casgrain LLP
Vancouver, BC

Banker

Bank of Montreal
Vancouver, BC

Registrar and Transfer Agent

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2004 Annual General Meeting

May 7, 2004
2:00 pm (local time)
The Grand Okanagan Resort
1310 Water Street
Kelowna, BC